



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
MARTIN COUNTY FISCAL COURT**

**Fiscal Year Ended June 30, 2001**

**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MARTIN COUNTY FISCAL COURT**

**Fiscal Year Ended June 30, 2001**

The Auditor of Public Accounts has completed the Martin County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

#### **Financial Condition:**

Fund balances increased by \$1,156,341 from the prior fiscal year, resulting in a cash surplus of \$5,958,730 as of June 30, 2001. Of this cash surplus, \$1,676,787 is restricted for extinguishing outstanding bond issues. Revenues increased by \$3,579,481 from the prior year and disbursements increased by \$4,539,492.

#### **Debt Obligations:**

Total bonded debt principal as of June 30, 2001, was \$3,765,000. Future collections of \$3,222,233 are needed over the next 19 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$945,000 as of June 30, 2001. Future principal and interest payments of \$1,218,446 are needed to meet these obligations.

#### **Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities or bonds.



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**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Lon E. Lafferty, Martin County Judge/Executive

Members of the Martin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Martin County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Martin County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Martin County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001, of Martin County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Lon E. Lafferty, Martin County Judge/Executive  
Members of the Martin County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 19, 2002, on our consideration of Martin County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Martin County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
July 19, 2002



MARTIN COUNTY OFFICIALS

Fiscal Year Ended June 30, 2001

**Fiscal Court Members:**

Lon E. Lafferty	County Judge/Executive
Dave West	Magistrate
James Jarrett	Magistrate
Darrell Mills	Magistrate
John Harmon	Magistrate
Garland Muncy	Magistrate

**Other Elected Officials:**

Thomas Drewie Muncy	County Attorney
Thomas J. Muncy	Jailer
Carol Sue Mills	County Clerk
Jack H. Horn	Circuit Court Clerk
Darriel Young	Sheriff
Tim Robinson	Property Valuation Administrator
Quentin M. Crum	Coroner

**Appointed Personnel:**

Franklin Fletcher	County Treasurer
Michelle Chapman	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS



MARTIN COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:			
Cash	\$	1,160,780	
Road and Bridge Fund:			
Cash		33,578	
Jail Fund:			
Cash		973	
Local Government Economic Assistance Fund:			
Cash		1,889,201	
Forestry Fund:			
Cash		462	
Payroll Revolving Account - Cash		<u>638</u>	\$ 3,085,632

Special Revenue Fund Type

Local Government Economic Development Fund:			
Cash	\$	968,231	
Housing and Urban Development Fund:			
Cash		<u>184,428</u>	1,152,659

Debt Service Fund Type

Public Properties Corporation Fund:			
Courthouse Annex Bonds-Investments	\$	1,331,038	
1998 Refinancing Bonds- Cash		217,081	
Library District Bonds-Cash		<u>128,668</u>	1,676,787

Component Unit

Local Government Economic Development Authority:			
Cash			44,290

The accompanying notes are an integral part of the financial statements.

MARTIN COUNTY  
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES  
ARISING FROM CASH TRANSACTIONS  
June 30, 2001  
(Continued)

Assets and Other Resources (Continued)

Other Resources

General Fund Type

Local Economic Development Fund:

Amounts to be Provided in Future Years for Capital

Lease Obligations - Road Improvements		\$	945,000
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Debt Service Fund Type

Public Properties Corporation Fund:

Amounts to be Provided in Future Years for Bond Payments:

1998 Refinancing Bonds	\$	1,162,919	
Library District Bonds		<u>996,332</u>	<u>2,159,251</u>

Total Assets and Other Resources			\$	<u><u>9,063,619</u></u>
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Liabilities and Fund Balances

Liabilities

General Fund Types

Payroll Revolving Account	\$	638	
Local Government Economic Development Fund:			
Capital Lease Obligation - Road Improvements (Note 6)		<u>945,000</u>	\$ 945,638

Debt Service Fund Types

Public Properties Corporation Fund:

Courthouse Annex Bonds (Note 7A)	\$	1,260,000	
1998 Refinancing Bonds (Note 7B)		1,380,000	
Library District Bonds (Note 7C)		<u>1,125,000</u>	<u>3,765,000</u>

The accompanying notes are an integral part of the financial statements.

MARTIN COUNTY  
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES  
 ARISING FROM CASH TRANSACTIONS  
 June 30, 2001  
 (Continued)

Liabilities and Fund Balances (Continued)

Liabilities (Continued)

Fund Balances

Reserved:

General Revenue Fund Type

Local Government Economic Assistance Fund	\$ 1,889,201	
Forestry Fund	<u>462</u>	\$ 1,889,663

Special Revenue Fund Type

Local Government Economic Development Fund	\$ 968,231	
Housing and Urban Development Fund	<u>184,428</u>	1,152,659

Debt Service Fund Type

Courthouse Annex Bonds (Note 7A)		71,038
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Component Unit

Local Government Economic Development Authority		44,290
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Unreserved:

General Fund Type

General Fund	\$ 1,160,780	
Road and Bridge Fund	33,578	
Jail Fund	<u>973</u>	<u>1,195,331</u>

Total Liabilities and Fund Balances		<u>\$ 9,063,619</u>
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The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

MARTIN COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2001

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 7,789,049	\$ 1,708,430	\$ 705,503	\$ 58,377
Other Financing Sources:				
Transfers In	1,574,673	184,045	224,372	250,000
Good Faith Deposit	22,500			
Lease-Purchase Proceeds	1,005,000	1,005,000		
Bond Proceeds	1,084,042			
Total Cash Receipts	\$ 11,475,264	\$ 2,897,475	\$ 929,875	\$ 308,377
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 6,705,273	\$ 1,578,801	\$ 637,411	\$ 307,963
Other Financing Uses:				
Schedule of Component Unit Expenditures	648,383			
Transfers Out	1,574,673	158,664	264,045	
Bonds:				
Principal Paid	175,000			
Interest Paid	169,396			
Fees	15,004			
Bond Proceeds To Library District	951,194			
Capital Lease Payments	80,000			
Total Cash Disbursements	\$ 10,318,923	\$ 1,737,465	\$ 901,456	\$ 307,963
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 1,156,341	\$ 1,160,010	\$ 28,419	\$ 414
Cash Balance - July 1, 2000* (Note 4)	4,802,389	770	5,159	559
Cash Balance - June 30, 2001*	\$ 5,958,730	\$ 1,160,780	\$ 33,578	\$ 973

\*Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

MARTIN COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
Fiscal Year Ended June 30, 2001  
(Continued)

General Fund Type		Special Revenue Fund Type			Debt Service Fund Type
Local Government Economic Assistance Fund	Forestry Fund	Local Government Economic Development Fund	Housing and Urban Development Fund	Pride Grant Fund	Public Properties Corporation Fund
\$ 3,617,257	\$ 462	\$ 1,376,270	\$ 78,026	\$ 18,916	\$ 211,463
237,926	2,133			28,705	12,159 22,500
					1,084,042
<u>\$ 3,855,183</u>	<u>\$ 2,595</u>	<u>\$ 1,376,270</u>	<u>\$ 78,026</u>	<u>\$ 47,621</u>	<u>\$ 1,330,164</u>
 \$ 1,508,058	 \$ 2,224	 \$ 2,596,488	 \$ 30,633	 \$ 43,695	 \$
512,705		635,333		3,926	
					175,000 169,396 15,004 951,194
<u>80,000</u>					
<u>\$ 2,100,763</u>	<u>\$ 2,224</u>	<u>\$ 3,231,821</u>	<u>\$ 30,633</u>	<u>\$ 47,621</u>	<u>\$ 1,310,594</u>
 \$ 1,754,420	 \$ 371	 \$ (1,855,551)	 \$ 47,393	 \$	 \$ 19,570
134,781	91	2,823,782	137,035		1,657,217
<u>\$ 1,889,201</u>	<u>\$ 462</u>	<u>\$ 968,231</u>	<u>\$ 184,428</u>	<u>\$ 0</u>	<u>\$ 1,676,787</u>

The accompanying notes are an integral part of the financial statements.

MARTIN COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
 CHANGES IN CASH BALANCES  
 Fiscal Year Ended June 30, 2001  
 (Continued)

	Component Unit
	Local Government Economic Development Authority
<u>Cash Receipts</u>	
Schedule of Operating Revenue	\$ 14,345
Other Financing Sources:	
Transfers In	635,333
Good Faith Deposit	
Lease-Purchase Proceeds	
Bond Proceeds	
	<hr/>
Total Cash Receipts	\$ 649,678
<u>Cash Disbursements</u>	
Comparative Schedule of Final Budget and Budgeted Expenditures	\$
Other Financing Uses:	
Schedule of Component Unit Expenditures	648,383
Transfers Out	
Bonds:	
Principal Paid	
Interest Paid	
Fees	
Bond Proceeds To Library District	
Capital Lease Payments	
	<hr/>
Total Cash Disbursements	\$ 648,383
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 1,295
Cash Balance - July 1, 2000* (Note 4)	42,995
	<hr/>
Cash Balance - June 30, 2001*	\$ 44,290

\* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Martin County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Public Properties Corporation and the Local Economic Development Board as part of the reporting entity.

The Local Government Economic Development Authority (the Development Authority) is a legally separate entity established to administer economic development projects for Martin County. The Fiscal Court appoints all of the Development Authority's board members and is financially accountable for the Development Authority. This financial accountability requires management to include the Development Authority as a component unit. The Development Authority is not included in any other organization's reporting entity. The financial activity of the Development Authority will be discretely presented on the financial statements.

The Public Properties Corporation (the Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity will be blended with that of the Fiscal Court.

Additional Martin County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Martin County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Martin County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Martin County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund and the Forestry Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Local Economic Development Fund, Housing and Urban Development Fund and the Pride Grant Fund of the Fiscal Court are reported as Special Revenue Fund Types.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Martin County budget is adopted on a cash basis of accounting and laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget (Continued)

Formal budgets are not adopted for the Debt Service Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2001, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Adjustments to Beginning Cash Balances

- A. The beginning cash balance of the Jail Fund was increased \$316 to account for a voided check.
- B. The beginning cash balance of the Local Government Economic Development Fund was decreased \$42,995 to account for the Local Government Economic Development Authority which is now discretely presented as a component unit.
- C. The beginning cash balance of the Public Properties Corporation Fund was increased \$711 for a voided check.

Note 5. Operating Leases

- A. On August 2, 2001, Martin County entered into a lease agreement with Old National Bank for a gradall. The principal amount of the lease was \$103,901. The agreement required annual payments of \$29,363, to be paid in full on June 15, 2004. The principal balance of the agreement was \$103,901 as of June 30, 2001. However, subsequent to fiscal year ended June 30, 2001, the gradall was destroyed in a fire. The county's insurance paid the lease in full on June 26, 2002.
- B. On May 22, 2001, Martin County entered into a lease-purchase agreement with Farmers Bank and Capital Trust Company for three vehicles. The principal amount of the lease was \$37,722. The agreement requires semi-annual payments of \$6,704, to be paid in full June 15, 2004. The principal balance of the agreement was \$37,722 as of June 30, 2001.
- C. On February 17, 1987, Martin County entered into a lease agreement with the Kentucky Transportation Cabinet for the purchase of real property. The principal amount of the lease was \$136,000. The agreement requires variable monthly payments for 30 years to be paid in full January 1, 2016. The principal balance of the agreement was \$72,533 as of June 30, 2001.



MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 6. Capital Lease

On August 3, 2000, Martin County entered into a lease agreement with Kentucky Area Development District Leasing Trust Program for road improvements and land acquisition. The principal amount of the lease was \$1,025,000. The agreement requires variable monthly payments for 10 years to be paid in full May 20, 2010. The principal balance of the agreement was \$945,000 as of June 30, 2001. Lease payments for the remaining years are:

Fiscal Year Ending June 30	Scheduled Interest And Other Fees	Scheduled Principal
2002	\$ 50,000	\$ 85,000
2003	45,751	90,000
2004	41,246	95,000
2005	36,494	100,000
2006	31,490	105,000
Thereafter	68,465	470,000
Totals	<u>\$ 273,446</u>	<u>\$ 945,000</u>

Note 7. Long-Term Debt

A. Courthouse Annex Bonds

In March 1991, the Martin County Public Properties Corporation, a component unit of the Martin County Fiscal Court, issued \$1,780,000 in First Mortgage Revenue Bonds for the construction of a Courthouse Annex. These bonds were originally scheduled to mature in September 2011. The Fiscal Court refinanced these bonds as a cost savings measure in March 1998. As part of the refunding, the Courthouse Annex bond payment schedule was revised to reflect a maturity date of September 2001. The bond principal and interest payments will be paid from the proceeds of the Martin County Refunding Bonds Series 1998. As of June 30, 2001, the principal balance outstanding on 1991 Courthouse Annex Bonds was \$1,260,000. The debt service requirement for fiscal year ending June 30, 2002 is as follows:

Fiscal Year Ending June 30	Scheduled Interest And Other Fees	Scheduled Principal
2002	<u>\$ 69,616</u>	<u>\$ 1,260,000</u>

MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 7. Long-Term Debt (Continued)

B. 1998 Refinancing Bonds

In March 1998, the Martin County Public Properties Corporation, a component unit of the Martin County Fiscal Court, issued \$1,660,000 in refunding revenue bonds to refinance the Courthouse Annex. The bonds require semiannual interest payments due September 1 and March 1 and one principal payment each year due September 1. The Administrative Office of the Courts makes lease payments directly to the bond trustee in order to pay principal and interest. The bonds will mature September 1, 2011. As of June 30, 2001, the principal amount outstanding was \$1,380,000. Bond payments for the remaining years are as follows:

Fiscal Year Ending June 30	Scheduled Interest And Other Fees	Scheduled Principal
2002	60,243	100,000
2003	55,936	105,000
2004	51,448	105,000
2005	46,660	115,000
2006	41,430	120,000
Thereafter	122,129	835,000
Totals	377,846	1,380,000

C. Library District Bonds

In January 2001, the Martin County Public Properties Corporation, a component unit of the Martin County Fiscal Court, issued \$1,125,000 in first mortgage revenue bonds for the Martin County Library District. Bond proceeds were paid directly to the Martin County Library Board for the renovation of the library building. The bonds require semiannual interest payments due in October and April and one principal payment due in October. The Library Board makes lease payments directly to the bond trustee in order to pay principal and interest. The bonds will mature April 1, 2021. As of June 30, 2001, the principal amount outstanding was \$1,125,000. Bond payments for the remaining years are as follows:

Fiscal Year Ending June 30	Scheduled Interest And Other Fees	Scheduled Principal
2002	\$ 54,985	\$ 35,000
2003	53,498	35,000
2004	52,010	35,000
2005	50,523	40,000
2006	48,723	40,000
Thereafter	426,820	940,000
Totals	\$ 686,559	\$ 1,125,000

MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 8. Cash For Long-Term Debt

As of June 30, 2001, Martin County has a total cash balance of \$5,958,730. Of this amount, \$1,676,787 is restricted for extinguishing outstanding bond issues.

Note 9. Subsequent Event

In May 2002, at the request of the County Judge/Executive, the Auditor of Public Accounts conducted a special investigation of the Martin County Fiscal Court. The special investigation researched an employee's use of a county credit card and issues relating to contract work performed at Pigeon Roost Park. The investigation concluded that the county possibly violated the Martin County Code of Ethics and recommended that the Martin County Ethics Commission review this matter. The investigation also found that a county employee personally benefited from a series of transactions involving a county credit card. Several recommendations were made to the Fiscal Court that would improve control procedures over the county's credit card. As a result, the county implemented written policies in order to improve controls over service projects and county credit cards.

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COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE



MARTIN COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 3,210,918	\$ 1,708,430	\$ (1,502,488)
Road and Bridge Fund	681,888	705,503	23,615
Jail Fund	76,002	58,377	(17,625)
Local Government Economic Assistance Fund	3,568,368	3,617,257	48,889
Forestry Fund		462	462
<u>Special Revenue Fund Type</u>			
Pride Fund	83,500	18,916	(64,584)
Local Governmental Economic Development Fund	2,801,456	1,376,270	(1,425,186)
Housing Urban Development Fund	120,088	78,026	(42,062)
Totals	<u>\$ 10,542,220</u>	<u>\$ 7,563,241</u>	<u>\$ (2,978,979)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 10,542,220
Add: Budgeted Prior Year Surplus			858,351
Less: Other Financing Uses			<u>(727,492)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 10,673,079</u>

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SCHEDULE OF OPERATING REVENUE



MARTIN COUNTY  
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2001

Revenue Categories	GOVERNMENTAL FUND TYPES				
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Debt Service Fund Type	Component Unit
Taxes	\$ 530,082	\$ 530,082	\$	\$	\$
Excess Fees	32,456	32,456			
Licenses and Permits	102	102			
Intergovernmental Revenues	6,487,212	5,067,427	1,419,785		
Charges for Services	4,407	4,407			
Miscellaneous Revenues	576,330	417,509	2,076	142,400	14,345
Interest Earned	158,460	38,046	51,351	69,063	
Total Operating Revenue	<u>\$ 7,789,049</u>	<u>\$6,090,029</u>	<u>\$1,473,212</u>	<u>\$ 211,463</u>	<u>\$ 14,345</u>

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

MARTIN COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 961,206	\$ 960,773	\$ 433
Protection to Persons and Property	574,778	569,358	5,420
General Health and Sanitation	819,295	319,295	500,000
Social Services	136,205	104,196	32,009
Recreation and Culture	321,023	150,225	170,798
Roads	1,672,249	1,024,268	647,981
Debt Service	92,158	74,158	18,000
Capital Projects	2,500,000	267,002	2,232,998
Administration	565,328	565,182	146
Total Operating Budget - General Fund Type	\$ 7,642,242	\$ 4,034,457	\$ 3,607,785
Other Financing Uses:			
Transfers to Public Property			
Corporation Fund	12,159	12,159	
Capital Lease Agreement-			
Principal on Lease	80,000	80,000	
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 7,734,401</u>	<u>\$ 4,126,616</u>	<u>\$ 3,607,785</u>

MARTIN COUNTY  
 COMPARATIVE SCHEDULE OF  
 FINAL BUDGET AND BUDGETED EXPENDITURES  
 Fiscal Year Ended June 30, 2001  
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 2,189	\$	\$ 2,189
General Health and Sanitation	2,699,357	2,596,116	103,241
Social Services	280,161	33,228	246,933
Capital Projects	40,880	40,880	
Administration	8,250	592	7,658
Total Operating Budget - Special Revenue Fund Type	\$ 3,030,837	\$ 2,670,816	\$ 360,021
Other Financing Uses:			
Transfers To Local Government Economic Development Authority	635,333	635,333	
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 3,666,170</u>	<u>\$ 3,306,149</u>	<u>\$ 360,021</u>

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SCHEDULE OF COMPONENT UNIT EXPENDITURES



MARTIN COUNTY  
SCHEDULE OF COMPONENT UNIT EXPENDITURES

Fiscal Year Ended June 30, 2001

Component Unit Fund Expenditure Items	Local Government Economic Development Authority
Advertisement	\$ 84
Shell Building Expenditures:	
Engineering	56,694
Gravel	2,103
Construction	578,513
Travel Reimbursement	332
Travel	178
Asphalt	3,599
Flowers	42
Refreshments	12
Legal Fees	128
Brochures & Conference	485
Insurance	625
Dinner Meeting	533
Office Supplies-Quill Corporation	195
Website Design	2,000
Appraisal	2,600
Travel Reimbursement	123
Refreshments	30
Room For KDIC Conference	83
Box Rent	24
Totals	<u>\$ 648,383</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Lon E. Lafferty, Martin County Judge/Executive

Members of the Martin County Fiscal Court

**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Martin County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated July 19, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Martin County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Martin County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
July 19, 2002



CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

MARTIN COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001



CERTIFICATION OF COMPLIANCE


LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

MARTIN COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Martin County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program and Local Government Economic Development Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
Lon E. Lafferty  
County Judge/Executive

  
\_\_\_\_\_  
Franklin Fletcher  
County Treasurer